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C O N F I D E N T I A L SECTION 01 OF 03 MANILA 003282

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STATE FOR EAP/EP, EB/TPP/BTA/ANA
STATE PASS USTR FOR BWEISEL AND DKATZ
STATE PASS USAID AND OPIC
TREASURY FOR OASIA FOR AJEWELL
USDOJ FOR MCRAWFORD
USDOC FOR 4430/ITA/MAC/DBISBEE

E.O. 12958: DECL: 07/15/2015
TAGS: [ECON](#) [EFIN](#) [EINV](#) [PGOV](#) [TBIO](#) [RP](#)
SUBJECT: ARROYO REBUILDING ECONOMIC TEAM

REF: A. A) MANILA 3154
[B. B\) MANILA 3061](#)

Classified By: Economic Officer Shawn Waddoups for reasons
1.4(b) and (d)

[1](#)1. (C) Summary: In the wake of the exodus of key economic advisors, President Arroyo began reconstruction of her economic team on July 12 with the appointment of Margarito Teves as Secretary of Finance. On July 14, she announced other key appointments, including Peter Tavia as Secretary of Trade and Industry, Romulo Neri as Budget Secretary, and Zamzamin Ampatuan as head of the National Anti-Poverty Commission. Tavia and Neri both have strong connections to Speaker of the House of Representatives Jose De Venecia. Their appointments seem to strengthen his position amidst on-going discussion of possible Charter Change. End Summary.

New Finance Chief "best possible fit"

[1](#)2. (U) President Arroyo named the current president of government-owned Landbank and former Congressional ally Margarito "Gary" Teves as Secretary of Finance on July 12. Teves studied in the U.K. at the City of London College (BS in Business Economics) and the U.S. at Williams College in Massachusetts (MA in Development Economics). After three terms as a congressman, he worked as a consultant promoting economic reform in the Philippines, including under contract with a USAID-funded project. Then-President Estrada named him president and CEO of Landbank of the Philippines in 2000, a position he held until his recent appointment. Business leaders hailed his appointment, but one called it "the toughest job in Asia."

[1](#)3. (C) DOF officials privately told econoffs that they welcomed his appointment and predicted he would focus more on Congressional and local business contacts and less on the international business community than his predecessor -- something they view as crucial to institutionalizing the reforms currently being implemented. Since his appointment, he has repeatedly emphasized that his top priority is implementation of the Expanded Value Added Tax, currently under a temporary restraining order from the Supreme Court (ref B), and continuing to improve tax collection. Other observers commented that he likely will be able to marshal support among business elites for these priorities because of his ties to the oligarchic Ayala family (he served as the Ayala Corporation's chief economist before his election to Congress). Business contacts told econoffs that Teves is the "best possible fit for the job, given the current situation," and described him as "an able technocrat." They lauded his record of good governance, effective reform and "capable administration" at Landbank. They also pointed to his record of supporting free trade, constructive engagement at the WTO and opening the financial services sector to foreign competition as signs that he will continue to push needed reforms as the leader of the President's economic advisors.

[1](#)4. (C) Teves comes from a political family with roots in the influential and protectionist "Sugar Bloc," but colleagues agreed that he was

firmly committed to liberalization of the Philippine economy, especially through legislation he sponsored while in Congress, often with then-Senator Arroyo as co-sponsor. Even opposition lawmakers praised Teves. Senator "Jingoy" Estrada, the son of former President Estrada and a fierce opponent of President Arroyo, told acting Pol/C on July 13 that Teves was a "brilliant choice" and "one smart guy."

From Stock Market To Trade

15. (U) Arroyo tapped Peter Favila to head the Department of Trade and Industry (DTI) on July 14. Seen as a "private sector guy," Favila continues the recent run of respected business leaders brought in by Arroyo to be head the effort to attract foreign investors to the Philippines. Unlike his two predecessors (former Finance and Trade Secretary Cesar Purisima and former Trade Secretary Juan Santos), Favila's business career has been focused almost exclusively on Filipino enterprises and not the international business community. He has extensive experience in the Philippine banking sector. He has no obvious experience in managing the "real side of the economy," as one observer put it to econoff. He comes from the camp of influential local tycoon Lucio Tan, having headed Tan's Allied Banking Corp. from 1998 to 2001. He was also the president and CEO of Philippine National Bank (PNB) from 1995-1998. Until his appointment, he sat on the board of advisors for Philippines Airlines (PAL) and was a board member for Tan's MacroAsia. He also served for many years on the Board of Directors for the Philippine Chamber of Commerce and Industry (PCCI). Favila studied at the University of Pennsylvania's Wharton School.

16. (C) According to Business and civil society contacts, in addition to his connection to Tan, he is tightly linked with former President Fidel Ramos and House Speaker Jose De Venecia. Only on July 7, he had assumed the position of chairman of the board of the Philippine Stock Exchange after four years as a non-broker director on the Exchange's board. His appointment to DTI caught many -- apparently including Favila -- by surprise. The business community has reacted positively to Favila's appointment, although he has not received the same unqualified support as Teves. DTI officials seemed cool to his appointment in conversations with econoff, but said that he is "level-headed and professional." They predicted he would focus on the development of small and medium enterprises and continue the push for improving infrastructure -- such as roads, the power grid and port facilities -- that his predecessors initiated.

Out of NEDA and into the Budget

17. (U) Arroyo shifted Romulo Neri, until July 14 the Economic Planning Secretary and Director General of the National Economic Development Authority (NEDA), to the position of Budget Secretary. He had organized and then was Director General of the Congressional Planning and Budget Office in the House of Representatives from 1990 until 2002, when he was named to the Cabinet; he is intimately familiar with the budget process. Neri received an MBA from the University of California, Los Angeles.

18. (C) Neri, since the resignation of Purisima et al, has been among the most vocal of Arroyo defenders and Purisima critics. Neri is very strongly linked to House Speaker De Venecia, who at one time advocated naming him to Finance Secretary. He has received mixed reviews for his performance at NEDA, but his personal loyalty to Arroyo is at this point unquestioned. The Budget job will likely be a better fit for Neri. While at NEDA, local observers frequently criticized him for lacking the ability to manage the broader macroeconomic aspects of the job, for lacking vision, and for being too detail oriented. He was not popular among NEDA officials with whom econoffs have spoken. According to civil society contacts, Neri should consider this move a demotion since NEDA is a more strategic department. However, the move will position him to oversee the budget wrangles during expected efforts to change the

Constitution and to institute federal budget structures in the event that the Philippines adopts a federal system.

9. (C) Arroyo chose to fill the vacancy at NEDA from within, pulling Neri's deputy Augusto B. Santos up into the top spot. Santos started at NEDA in 1990; much of his career has focused on infrastructure development. He is an engineer by training, who has little experience with economic policy. He does not have a strong base of support, and many here are speculating that he is a place-holder until Neri moves back to NEDA or someone else is named to replace him. His appointment failed to elicit strong comment either positive or negative. Neri, when asked about his successor, said only that he is the "senior" official at NEDA and, therefore, a logical choice. NEDA contacts told econoff they are worried that much of their time in the midst of a difficult situation will be consumed with explaining the macroeconomic portion of NEDA's operations to Santos, because he has had very little involvement with that side of the house and often does not grasp the issues involved.

New anti-poverty chief someone to work with

10. (C) Zamzamin Ampatuan, who until July 14 was Office of Muslim Affairs (OMA) Executive Director, is Arroyo's choice to head the National Anti-Poverty Commission (NAPC). Ampatuan is a close Embassy contact and a widely respected moderate Muslim from a prominent Mindanao family. According to all accounts, he is clean and has integrity. At OMA, he proved to be a capable manager, a good leader, and a media savvy speaker. In moving to NAPC, he is gaining a national portfolio and will work on one of Arroyo's most pressing challenges but still be able to focus on Muslim Mindanao, where Philippine poverty is at its most oppressive.

11. (C) Comment: The new secretaries bring respect among the business community and technical expertise to their jobs, while at the same time drawing in important domestic constituencies that their predecessors did not. Arroyo said publicly that she had chosen "the kind of team that I can leave the day-to-day affairs of the government with while I work on the fundamental reforms," and pledged to give the new appointees a "free hand" to craft and implement needed new reforms with "as little political interference as possible." Few local observers believe, however, that short-term economic policy decisions can be divorced from the current political uncertainty. Business leaders are warning that no matter how good the new secretaries

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are, if she is unwilling and incapable of implementing bold fiscal reforms they will be "just decoration in the Cabinet until (they) get frustrated and leave like Purisima." The new economic team may end up being more of a transitional team than a true new leadership team.
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